

Supreme Court, U. S.
FILED

AUG 4 1976

MICHAEL RODAK, JR., CLERK

Supreme Court of the United States

October Term, 1976

No. **76-1551**

ALLIED WITAN COMPANY,
Petitioner,

VS.

THE ARO CORPORATION,
Respondent.

PETITION FOR WRIT OF CERTIORARI **To the United States Court of Appeals** **For the Sixth Circuit**

ALBERT L. ELY, JR.

2404 Terminal Tower
Cleveland, Ohio 44113
(216) 861-0341

Attorney for Petitioner

Of Counsel:

ELY & GOLRICK

2404 Terminal Tower
Cleveland, Ohio 44113
(216) 861-0341

TABLE OF CONTENTS

Opinions Below	1
Jurisdiction	2
Questions Presented	2
Statutes Involved	3
Statement of the Case	4
(a) The Parties, the Businesses, and the Patent in Suit	4
(b) Proceedings in the District Court Below	6
(c) Proceedings in the Appellate Court Below	11
Reasons for Granting the Writ	12
Summary of Argument	12
A. Improper Extension of "Inherent" Federal Jurisdiction	12
B. Erosion of <i>Lear</i>	15
C. Duty of Courts to Determine Lawfulness of Contracts Summarily Enforced Pursuant to Claimed Inherent Powers	16
Conclusion	18
Appendix A:	
Decision of the Court of Appeals (March 25, 1976) A1	
Judgment of the Court of Appeals (March 25, 1976) A12	
Order of the Court of Appeals Diminishing Costs (April 28, 1976)	A13
Order of the Court of Appeals Denying Rehearing (May 7, 1976)	A14

II

Appendix B:

Order of Dismissal of District Court (March 25, 1974)	A15
Memorandum and Order of the District Court (January 30, 1975)	A16
Judgment of the District Court (February 5, 1975)	A21
Order of the District Court Extending Time for Filing Record and Docketing Appeal (March 12, 1975)	A22
Memorandum and Order of the District Court (March 26, 1975)	A23
Memorandum and Order of the District Court (April 3, 1975)	A28

Appendix C:

Federal Rules of Civil Procedure, Rule 54	A31
Federal Rules of Civil Procedure, Rule 56	A31
Federal Rules of Civil Procedure, Rule 60(b)	A34

TABLE OF AUTHORITIES

Cases

<i>Arvin Industries, Inc. v. Berns Air King Corporation</i> , 510 F.2d 1070 (7th Cir., 1974)	14, 15
<i>Autera v. Robinson</i> , 419 F.2d 1197 (App. D.C. 1969)	13
<i>B. B. Chemical Co. v. Ellis, et al.</i> , 314 U.S. 495 (1941)	16, 17
<i>Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, et al.</i> , 402 U.S. 313 (1971)	12, 16
<i>Kukla v. Nat'l Distillers Products Co.</i> , 483 F.2d 621 (6th Cir., 1973)	14, 15, 17

III

<i>Kysor Industries, Inc. v. Pet, Inc.</i> , 459 F.2d 1010 (6th Cir., 1972)	13-14, 15
<i>Lear v. Adkins</i> , 395 U.S. 653 (1969)	3, 12, 15, 16
<i>Mercoid Corp. v. Mid-Continent Co.</i> , 320 U.S. 661 (1943)	16, 17
<i>Morton Salt Co. v. Suppiger Co.</i> , 314 U.S. 488 (1941)	16, 17
<i>United Mine Workers v. Gibbs</i> (1966), 383 U.S. 715	14, 15

Statutes and Rules

Federal Rules of Civil Procedure:

Rule 54(b)	4, 7
Rule 56	2, 4, 7, 15
Rule 60(b)	4, 9, 13
15 U.S.C. 15	7
15 U.S.C. 22	7
28 U.S.C. 1254(1)	2
28 U.S.C. 1291	10, 11
28 U.S.C. 1292(a)(1)	7, 10, 15
28 U.S.C. 1332(a)	3
28 U.S.C. 1332(c)	3, 4, 13
28 U.S.C. 1338(a)	6, 7
28 U.S.C. 1338(b)	7
28 U.S.C. 2101(c)	2
28 U.S.C. 2201	7
28 U.S.C. 2202	7
35 U.S.C. 271(c)	3, 4
35 U.S.C. 282	17

Supreme Court of the United States

October Term, 1976

No. _____

ALLIED WITAN COMPANY,
Petitioner,

vs.

THE ARO CORPORATION,
Respondent.

PETITION FOR WRIT OF CERTIORARI To the United States Court of Appeals For the Sixth Circuit

Your petitioner, Allied Witan Company (hereafter "Allied Witan") prays that a Writ of Certiorari issue to review the judgment of the United States Court of Appeals for the Sixth Circuit, entered March 25, 1976, in the above cause.

OPINIONS BELOW

The opinion of the court of appeals below, dated and filed March 25, 1976, affirmed its district court below; it is reproduced in Appendix A chronologically with other orders entered by said appellate court; the opinion is reported at 531 F.2d 1638. The relevant memoranda and orders of the district court below are unreported; they are reproduced chronologically in Appendix B and their dates and substance are set forth in the following "Statement" of this case.

1368

JURISDICTION

Allied Witan filed a timely petition for rehearing of the court of appeals' judgment and decision, dated and entered March 25, 1976, for which review is hereby sought; said petition was denied May 7, 1976. Thus, this petition is timely; 28 U.S.C. 2101(c).

Jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

QUESTIONS PRESENTED

1. May a Federal Court, once having entered a stipulated dismissal without prejudice of a complaint and counterclaim based on Federal grounds, thereafter re-vest itself with jurisdiction solely to compel specific performance of a license contract of parties between whom there is no diversity of citizenship?

2. Is an interlocutory appeal, from a mandatory order for specific performance of a contract of parties between whom there is no diversity, a sufficient sole ground under Rule 56, F.R.C.P., for a Federal district court to dismiss, summarily and *sua sponte*, a complaint and counterclaim which it had restored to its active trial calendar?

3. When a defendant, an alleged patent infringer, during the pre-trial pendency of a suit, enters into a patent license (devoid of even a *pro forma* acknowledgement of validity or infringement) with a plaintiff-patentee as part of a settlement, that, among other aspects, also included a stipulated dismissal without prejudice of the patent infringement complaint and the counterclaims seeking declaratory judgment of invalidity and non-infringement as well as charging the plaintiff-patentee with anti-trust law violations—all before a hearing or judgment on such issues

or participation of the Court in the final settlement negotiations and terms—in the light of *Lear*¹ may such a defendant, upon re-opening of the suit, be compelled summarily to comply with such license, including posting of a bond equivalent to past and anticipated royalties?

4. Before summarily ordering specific performance of a patent license, is it not an obligation of a Federal district court to have an evidentiary hearing to determine whether or not it might be requiring a purported licensee, contrary to 35 U.S.C. 271(c), to pay royalties under patent claims for staple articles of commerce having substantial and previously known non-infringing uses?

STATUTES INVOLVED

A statute involved is Title 28 of the United States Code, § 1332, subsection (a) and the first sentence of subsection (c):

§ 1332. Diversity of citizenship; amount in controversy; costs

(a) The district courts shall have original jurisdiction of all civil actions where the matter in controversy exceeds the sum or value of \$10,000, exclusive of interest and costs, and is between—

(1) citizens of different States;

(2) citizens of a State, and foreign states or citizens or subjects thereof; and

(3) citizens of different States and in which foreign states or citizens or subjects thereof are additional parties.

* * * * *

1. *Lear v. Adkins*, 395 U.S. 653, 670-71 (1969).

(c) For the purposes of this section and section 1441 of this title, a corporation shall be deemed a citizen of any State by which it has been incorporated and of the State where it has its principal place of business: *Provided further* * * * * * [proviso relating to insurers and insured omitted as irrelevant].

Another statute involved is Title 35 of the United States Code and its section 271(c):

§ 271. Infringement of patent

* * * * *

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

For the convenience of the Court, the pertinent portions of Federal Rules of Civil Procedure, to which reference is made below are reproduced in Appendix C, namely, Rules 54(b), 56, and 60(b).

STATEMENT OF CASE

(a) The Parties, the Businesses, and the Patent in Suit.

Your petitioner, Allied Witan, is a corporation of Ohio; its principal place of business was in Cleveland, Ohio. It manufactures a wide line of small filters and mufflers for pneumatic, hydraulic, and steam tools, valves and the like

(not to be confused with mufflers for internal combustion engines). The products are of various types and constructions to meet specific noise problems and/or problems involving the segregation of commingled gases, liquids, and particulates. Particularly the accused devices comprising a conventional pipe fitting plugged or capped with sintered porous metal, some of Allied Witan's products are occasionally termed "filter-muffs" since, at the option of the purchaser, they may serve either as a filter or a muffler; when ordered by part number only, or by dealers who resell, such ultimate end-uses are unknown and unpredictable.

Respondent, The Aro Corporation (hereafter "Aro") is a corporation of Delaware but has its principal place of business in Bryan, Ohio [Northern District of Ohio, Western Division]. It manufactures and sells a wide line of pneumatic tools and related equipment.²

The Zwayer patent in suit, No. 2,950,775, is assigned to Aro and is entitled "Exhaust Noise Reducing and Air Diffusing Means for Pneumatic Motors". Its disclosure and principal claims call for the combination of a "sound deadening chamber" between the motor and an "air diffuser"; subcombination claims 6, 7, and 8 cover "An air diffusing means for a pneumatic motor * * *" or "An air diffuser for the exhaust of pneumatic motor * * *" and call for a tubular fitting with a sintered or porous metal cap having a specified area relative to the bore of the fitting.

2. The finding by the court below that, as to the accused devices, there was " * * * competing production by Aro. * * *" (A10) is without support in the record; indeed, the short and sole discovery depositions taken by Allied Witan at the outset of the suit below in 1971 established that Aro was producing none but was buying them as parts from the two then claimed licensees under the patent in suit.

(b) Proceedings in the District Court Below.

After a preliminary notice citing an Allied Witan advertisement and exchanges of correspondence between attorneys for Aro and Allied Witan since 1969, on February 12, 1971, Aro filed suit against Allied Witan and Norman Engineering Company³ in the United States District Court for the Northern District of Illinois, Eastern Division, #71C414, charging infringement of the Zwyer patent; jurisdiction was claimed under 28 U.S.C. 1338(a).

Securing service upon a "Factory branch office" of Aro in the Cleveland area, Allied Witan filed countersuit on February 26, 1971, in the Northern District of Ohio, Eastern Division, *Allied Witan Company v. The Aro Corporation*, # C71-205; this action sought a declaratory judgment of non-infringement and invalidity of the Zwyer patent, charged violation of the antitrust laws, and claimed unfair competition by harassment of an Allied Witan supplier, its customer, Norman, and, also, of Allied Witan's president, Stephen J. Gibel, and his wife by causing service of the Chicago complaint at the Gibel residence in sub-

3. Norman Engineering Company (hereafter Norman) was a Chicago dealer in Allied Witan's accused filter-mufflers. Allied Witan assumed Norman's defense and after transfer of venue to Cleveland, Norman has been an increasingly inactive defendant. The stipulated dismissal, entered March 25, 1974, of the complaint and counterclaim in the Cleveland suit was captioned and endorsed by an attorney for Norman as well as Allied Witan. Though released along with other customers and suppliers of Allied Witan under the Aro-Allied Witan license agreement dated as of April 1, 1974 (which the courts below elected to treat as the entire "settlement"), Norman was neither a party to nor signatory of that agreement. The February 3, 1975, notice of interlocutory appeal and the March 27, 1975, appeal from the final judgment of February 5, 1975, leading to the decision and judgment of which review is hereby sought, were all filed in the name of Allied Witan only. The supersedeas bond was also posted only by Allied Witan.

urban Cleveland, Ohio;⁴ jurisdiction in this Cleveland action was invoked under 28 U.S.C. 1338(a) and (b), 2201 and 2202.

In the Chicago action, the defendants concurrently moved for dismissal at least as to Allied Witan and a stay as to Norman if not dismissed as to it. Upon an evidentiary hearing, the Chicago district court, instead, transferred the action to the Northern District of Ohio, Eastern Division, Norman waiving venue.

Thereafter Allied Witan's Cleveland action was merged as an answer and counterclaim to Aro's transferred complaint and an answer and counterclaim, paralleling Allied Witan's, was filed for Norman; anti-trust jurisdiction was invoked under 15 U.S.C. 15 and 22 as well as the statutes recited in Allied Witan's original Cleveland complaint.

Aro responded to Allied Witan's early discovery depositions of Aro's officers in Bryan, Ohio, by interrogatories, requests for production of documents, etc., which Allied Witan opposed as unduly massive, harassing, and oppressive. The disputes led to an order from which Allied Witan filed a notice of interlocutory appeal under 28 U.S.C. 1292(a)(1) on October 17, 1972. This initiated settlement discussions and subsequent withdrawal of the interlocutory appeal. Settlement discussions were protracted; a pre-trial conference was held on December 10, 1973, with a judge for the Western Division of the Northern District of Ohio (to whose docket the case had been assigned), but critical terms and conditions of the hoped-for settlement of the controversy remained at an impasse. Thereafter, there

4. During the merged proceedings in Ohio, Allied Witan's claim for unfair competition was summarily dismissed upon Aro's motion under Rule 56, F.R.C.P., and, until final judgment of February 5, 1975, remained in the suit only by operation of Rule 54(b), F.R.C.P.

was further correspondence and telephone communications between attorneys involving trading off and modification of claimed rights and obligations in (i) an Aro-Allied Witan license agreement, (ii) a collateral oral agreement between counsel respecting prompt notification of Aro's two purported prior licensees and (iii) agreement as to the substance and form of a consent dismissal. On February 28, 1974, Allied Witan assumed a settlement had been reached; its attorney executed the stipulated dismissal of the complaint and counterclaim without prejudice and mailed it to Aro's lead attorneys; this letter also recited the collateral oral agreement between counsel as a condition precedent to execution of the patent license agreement and which was the final component of the overall settlement. Aro's attorneys thereafter executed the consent dismissal, under which each party was also to bear its own costs, so that the consent dismissal of the complaint and counterclaim without prejudice was entered March 25, 1974.

Material to this petition are features of the Zwayer patent license accepted by Allied Witan that were represented by Aro as differing from and exceptions to that granted the purported two prior licensees: (i) There was no express acknowledgement of validity and infringement of the Zwayer patent; (ii) A full royalty (5%) was due on an accused device sold as a muffler; if the end-use as a muffler or as a filter was ambiguous, a half-royalty (2.5%) was due; no royalties were due when sold as a filter⁵; (iii) Though identical devices, Allied Witan was to adopt different model and type designations according to end-use

5. The two purported existing Zwayer patent licensees were represented as paying full royalty regardless of whether the end-use was a claimed infringing use as a muffler or a conceded non-infringing use as a filter.

as mufflers or filters and, accordingly, exhibit them separately in its catalogues and price lists.⁶

Before Allied Witan was obligated to act under the April 1, 1974, license agreement, it anticipated Aro's breach of the collateral agreement between counsel (which breach materialized). Allied Witan also took the position that it was currently excused from complying with any terms of the Zwayer patent license due to its provision which entitled Allied Witan to the more favorable terms of a later license under that patent. Aro's failure to take action against at least one of the number of unlicensed competitors was contended by Allied Witan either to constitute a *de facto* obligation-free license to which Allied Witan was also entitled by express terms or a material failure of consideration. Aro's response was to the effect that, as the licensee, it was Allied Witan's obligation to secure specimens of unlicensed devices, whereupon Aro would decide whether an action for infringement should be brought. To Allied Witan, this completed Aro's complete repudiation of the over-all settlement and released Allied Witan from obligations under the patent license.

The dispute as to which party was in default in the over-all settlement led to Aro's September 30, 1974, motion under Rule 60(b), F.R.C.P., to "Vacate Order Dismissing Suit and Order Specific Performance of Settlement Agreement" [meaning "license agreement"]. Allied Witan duly opposed. Without any evidentiary hearing and silent as to an affidavit of Mr. Gibel that it was the collateral oral

6. Though apparently not comprehended by the court below, prompt knowledge of whether the purported licensed two competitors would accept or reject similar terms, as collaterally agreed to be supplied by Aro's attorneys, would be critical to Allied Witan's competitive pricing and, thus, was the business reason which made the collateral oral agreement material to the acceptability of the over-all settlement.

agreement between counsel (later breached by Aro) which finally induced Allied Witan to authorize the consent dismissal of its counterclaims and to enter the April 1, 1974, license agreement, on January 30, 1975, the district court entered its memorandum and order (A16-A20). This order (i) vacated the March 25, 1974, stipulated dismissal of the complaint and counterclaim; (ii) reinstated the case on the court's pending docket; (iii) granted Aro's motion for specific performance of the "settlement agreement"; and (iv) enjoined Allied Witan from "not complying with the terms of the settlement agreement".

On February 3, 1975, Allied Witan filed a notice of appeal under 28 U.S.C. 1292(a)(1) from the injunctive portion in the district court's January 30, 1975, memorandum and order.

On February 5, 1975, without any intervening action by either party, the district court entered a "Judgment" (i) vacating the March 25, 1974, stipulated dismissal of the complaint and counterclaim; (ii) repeating the injunction of its January 30, 1975, order; and (iii) dismissing the complaint and counterclaim without prejudice (A21).

On March 26, 1975, the district court entered a memorandum and order (i) permitting the prior notice of interlocutory appeal to proceed as an appeal from a final judgment under 28 U.S.C. 1291; (ii) denied Allied Witan's motion to alter and amend its judgment; (iii) stayed execution of the injunction on the condition that within 10 days Allied Witan file a verified accounting for the number and dollar volume of "* * * licensed articles * * *" sold and, also, report sales thereof "during the last 12 months to enable an estimate of future sales of such licensed articles during the pendency of any appeal plus interest from April 30, 1974"; and (iv) allowing Aro to suggest an adequate

security based on such an accounting, but permitting no reply thereto by Allied Witan (A23-A26).

On March 27, 1975, Allied Witan duly noticed an appeal under 28 U.S.C. 1291 from the February 5, 1975, final judgment. On April 3, 1975, the district court denied Allied Witan's motion for transfer of the record from Toledo to Cleveland for inspection and extension of time for the filing of the record in the appellate court based upon the March 27, 1975, notice of appeal from a final judgment, rather than a confusing order issued *sua sponte* by another judge of the Western District of the Northern District of Ohio based on the time running from the withdrawn notice of interlocutory appeal of February 3, 1975 (A28-A30).

(c) Proceedings in the Appellate Court Below.

On April 4, 1975, Allied Witan moved in the appellate court below for a stay and supersedeas without further bond or, alternatively, summary remand reversing or directing modification of final judgment as amplified. Aro opposed and Allied Witan's motion was denied. A cash supersedeas bond of \$1,500.00 was filed.

Briefs were duly filed and oral argument was heard on December 15, 1975. The appellate decision (A1-A11) was entered March 25, 1976.

On April 28, 1976, Aro's bill of costs for printing its briefs in the amount of \$7,300, was reduced to \$1,450 (A13).

On May 7, 1976, Allied Witan's petition for rehearing was denied (A14). One motion for stay of mandate to allow preparation of this petition was granted; a second was denied by marginal endorsement on June 29, 1976.

REASONS FOR GRANTING THE WRIT

Summary of Argument.

The decisions below dangerously befog, and call for clarification, in three areas: (i) the permissible extension of "inherent" powers of federal trial courts into controversies subject to resolution in state courts; (ii) the erosion of the doctrine of *Lear* against muzzling licensees contesting the enforceability of licensed patents by classification of them according to the circumstances under which the licenses were taken; (iii) to the extent federal trial courts have any inherent power to command compliance with a contract entered into as part of a settlement of pending litigation, the inherent duty of the court to ascertain the lawfulness of such contract.

A. Improper extension of "inherent" federal jurisdiction.

At least Allied Witan, and presumably to some degree Aro also, was experiencing, at the time settlement discussions were commenced, the truth as found by this Court in *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, et al.*, 402 U.S. 313, 334-338 (1971), namely, the expense of patent litigation may make settlement preferable to the burden of challenging a patent. Indeed once such a patent suit is commenced and the alleged infringer must either knuckle under or, as here, challenge validity and infringement by answer and compulsory counterclaim for himself (and his customer) asserting related issues, the burden of initial pre-trial discovery alone can make a "cease-fire" both the honorable and practical alternative for the opponents. The order of dismissal of the complaint and counterclaims without prejudice entered March 25, 1974 (A15) was precisely such a mutual

cease-fire. Except as resurrectable under Rule 60(b), F.R.C.P., the federal jurisdiction invoked in asserting the complaint and counterclaim was terminated.

Even if they were correct in treating the Aro-Allied Witan license under the Zwyer patent as constituting the entirety of the settlement between the parties,⁷ neither of the courts below question that both Allied Witan and Aro [the latter by operation of 28 U.S.C. 1332(c)] are citizens of Ohio, that disputes arose after the March 25, 1974, dismissal, that all Aro has ever sought by its resurrection of the original controversy under Rule 60(b) and what the courts have now ordered is not a resolution of the original controversy for which there was federal jurisdiction⁸ but specific performance of a contract between citizens of Ohio, to whom the courts of their state were open. State courts are fully competent to adjudicate patent license disputes between their citizens, even though questions of patent validity and issues may be involved. See *Kysor Industries, Inc. v. Pet, Inc.*, 459 F.2d 1010, 1012 (6th

7. Nothing in any authorities found by petitioner requires that a settlement be encompassed in one document or excludes its embodiment in several coordinate agreements. As the statement of this case points out, in addition to the prior oral collateral agreement between counsel, memorialized in the February 28, 1974, letter forwarding the stipulated dismissal, the substance and form of that dismissal also represents a separate collateral agreement not appearing in the patent license. The district court's dismissal of the breaches of the collateral oral agreement between counsel as "spurious in light of the parol evidence rule" (A19), quoted with approval by the appellate court (A7), appears mistaken. According to *Autera v. Robinson*, 419 F.2d 1197, 1198, n. 1 (App. D.C. 1969) and authorities there cited, law suits may be compromised by oral agreements between counsel, which agreements become binding exceptions to the statute of frauds by part performances pursuant thereto.

8. The assertion of the appellate court that Allied Witan's settlement was an act whereby it " * * * abandons its challenge to validity [of the Zwyer patent], * * *" (A9) ignores the express language of the March 25, 1974, cease-fire stipulated dismissal without prejudice to the complaint and counterclaims.

Cir., 1972, citing *Lear*); also *Arvin Industries, Inc. v. Berns Air King Corporation*, 510 F.2d 1070, 1973 (7th Cir., 1974).

The ill-defined "inherent" power of a Federal district court to extend its jurisdiction originally invoked to disputes arising subsequent to settlement, upon which the courts below rely in this case, is not without limitation. Thus, *Kukla v. Nat'l Distillers Products Co.*, 483 F.2d 621-622 (6th Cir., 1973) recognizes that any summary exercising of the power may result in inequities in the absence of evidentiary hearings—as were not held below. It is also to be noted that in all the authorities cited in *Kukla* at 483 F.2d 621 for such inherent power, the post-settlement dispute itself was subject to federal jurisdiction—diversity, admiralty, residences in the District of Columbia, etc.

To the extent the aforesaid "inherent" jurisdiction of federal trial courts is akin to or a species of pendent jurisdiction, the guidelines to the latter were clearly set down in *United Mine Workers v. Gibbs* (1966), 383 U.S. 715, 716-717, as follows:

"Certainly, if the Federal claims are dismissed before trial, even though not insubstantial in a jurisdictional sense, the state claims should be dismissed as well. Similarly, if it appears that the state issues substantially predominate, whether in terms of proof, of the scope of the issues raised, or of the comprehensiveness of the remedy sought, the state claims may be dismissed and left for resolution to the state tribunals."

Application of the foregoing guidelines to the post-dismissal contractual dispute pressed in the courts below would not have left Aro the option of seeking to enforce its license

agreement in a Federal court or an Ohio court, but would have required Aro to resort to the latter, only.⁹

The decision below demonstrates, it is respectfully submitted, the need for guidelines, similar to those of *Gibbs*, on the post-settlement inherent powers of Federal trial courts—as to which the circuit courts are at variance; cf. *Kukla*, *Arvin*, *Kysor*, and the result in the case below.

B. Erosion of *Lear*.

The appellate decision below would exclude Allied Witan from an opportunity to continue its unending challenge to the Zwyer patent because, during the suspension to permit negotiation of the license agreement and collateral agreements constituting the settlement, " * * * it was in court with full opportunity of challenging the patent involved * * *" (A9).¹⁰ Nothing in *Lear* at 395 U.S. 670, establishes, as second-class licensees who ought to be muz-

9. The appellate court below infers (A9) that by seeking adjudication of its contract dispute with Aro in the Ohio state courts, Allied Witan would be trying to ". . . start all over again". This overlooks that there were never any evidentiary hearings either on the merits of the licensed patent, the substance of the remaining counterclaims, or the scope and enforceability of the license contract that was a component, but by no means the entirety, of the settlement.

10. Allied Witan is also charged with "on-again, off-again strategies" (A9). This is, of course, denied; any such strategy appears only in the district court's *sua sponte* orders. Its order of January 30, 1975, restored the case to the trial calendar, but with Allied Witan muzzled by an injunction requiring compliance with the Zwyer patent license agreement; six days later, February 5, 1975, it dismissed the complaint and counterclaims as a final judgment. Since the only intervening action was Allied Witan's notice of an interlocutory appeal under 28 U.S.C. 1292(a)(1) from that injunction, this summary final judgment is inexplicable under any Federal Rule of Civil Procedure. Certainly such a statutory interlocutory appeal is not a ground under Rule 56, F.R.C.P., for a summary judgment dismissing in their entirety the complaint and counterclaim so recently restored to the court's calendar—all without a finding of any grounds for terminating the issues raised by such pleadings.

zled, those who have a patent infringement action filed against them and then, mutually with the patentee, withdraw from the fray before any evidentiary hearing on the issues raised by the pleadings, in contrast with those who, as noted in *Blonder-Tongue*, cave in to a threat of an infringement action by accepting a license before suit is filed.

If this erosion of the doctrine of *Lear* is allowed to stand, aggressiveness of patentees, regardless of the merits of their unadjudicated patents as applied to their prospective licensees, will be promoted, and alleged infringers, regardless of the merits of their defenses and counterclaims, will be penalized by a final judicial assumption of infringement and validity of the license and the patent licensed thereby if the parties agree to a cease-fire before discovery is completed.

C. Duty of Courts to determine Lawfulness of Contracts summarily enforced pursuant to claimed inherent powers.

It is not apparent from the record whether the district court ever examined the Aro-Allied Witan license for its lawfulness under the anti-trust laws, according to *Mercoide Corp. v. Mid-Continent Co.*, 320 U.S. 661, 665, 667 (1943). Likewise, there is nothing to indicate a concern about Aro's compliance with the doctrines of *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488, 493 (1941) and *B. B. Chemical Co. v. Ellis, et al.*, 314 U.S. 495, 498 (1941)—namely whether by that license Aro was attempting to extend its monopoly beyond the scope of the Zwayer patent claims, as for example, attempting to control the identification, pricing, advertising and royalties payable on identical devices according to whether the ultimate end use, known or unknown, was for prior art filters or claimed patented mufflers.

Despite the fact that, for itself and its customer Norman, Allied Witan, as the record will show, had been asserting from the outset in the counterclaims that Aro was seeking to extend its monopoly to staple articles of commerce having substantial non-infringing uses [condemned in *Mercoide* pursuant to *Morton Salt* and *B. B. Chemical*], the appellate court below brushed this question aside as merely a question of indefiniteness of the license being raised for the first time before the appellate court in this litigation (A3, n.1). The appellate court also adverts (A8, n.3) to the strong public interest upholding valid patents while characterizing the concurrent public interest in full and free competition as "monopolophobia" (A11).

Under the doctrine of *Kukla* that, where any possibility of doubt or ambiguity exists, summary enforcement of settlement agreements under inherent powers of the court should be exercised only after evidentiary hearings, it is submitted this petition should be granted to permit pronouncement of a needed necessary corollary:

That corollary should be that before muzzling any patent licensee to his license, a court should have an evidentiary hearing to ascertain that the license and its provisions are lawful and within the scope of the claims of the licensed patent. Whatever weight is given to the presumption of validity under the patent statute, 35 U.S.C. 282, of any given patent issued by the United States Patent and Trademark Office, no corresponding presumption, statutorily or otherwise, attaches to any patent license, whether negotiated in a "free market" (to which the district court and appellate court below allude, A5) or under the gun of burdensome litigation initiated by the patentee.

CONCLUSION

For the foregoing reasons, it is respectfully submitted that a Writ of Certiorari should issue on this petition.

Respectfully submitted,

ALBERT L. ELY, JR.

2404 Terminal Tower
Cleveland, Ohio 44113
(216) 861-0341

Attorney for Petitioner

Of Counsel:

ELY & GOLRICK

2404 Terminal Tower
Cleveland, Ohio 44113
(216) 861-0341

APPENDIX A**Decision of the Court of Appeals**

(Filed March 25, 1976)

No. 75-1510

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

THE ARO CORPORATION,
Plaintiff-Appellee,

v.

ALLIED WITAN COMPANY,
Defendant-Appellant.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR
THE NORTHERN DISTRICT OF OHIO.

Before: WEICK, *Circuit Judge*, LIVELY, *Circuit Judge*,
and MARKEY, *Chief Judge*, U. S. Court of Customs and Pat-
ent Appeals.*

MARKEY, Chief Judge, U. S. Court of Customs and Pat-
ent Appeals. This is an appeal from the district court's
order for specific performance of an agreement between
Allied Witan Company (Allied) and The Aro Corporation
(Aro). The agreement formed the basis for settlement of
patent infringement litigation before the same district court.
We affirm.

*Sitting by designation.

BACKGROUND

In 1971 Aro instituted suit against Allied, alleging infringement of its U.S. Patent No. 2,950,775. Allied filed a counterclaim, seeking declaratory judgment of non-infringement of any valid claim and alleging unfair-competition and anti-trust violation. Pursuant to settlement, the complaint and counterclaim were dismissed without prejudice by Order dated March 25, 1974.

The parties had engaged in protracted negotiations, involving exchange of seven license drafts over a period of almost eighteen months. They then agreed to stipulate dismissal of the action and executed a written license agreement effective from April 1, 1974, and expiring with the patent on August 20, 1977. Almost before the ink had dried on the license, Allied began questioning its terms. On April 26, 1974, Allied's attorney questioned whether Aro had notified its other licensees of the license herein and alleged "substantial unlicensed infringing competition" from ten corporations. Aro responded that the license agreement required no disclosure of the type demanded by Allied and that the facts presented were insufficient to formulate an opinion on the alleged infringing competition. Aro suggested submission of samples of the devices alleged to be infringing. On May 17, 1974, Aro demanded the first royalty payment which had been due on April 30, 1974. Allied refused payment. On September 30, 1974, Aro filed a "Motion to Vacate Order Dismissing Suit Under Rule 60 and Order Specific Performance of Settlement Agreement."

Opposing Aro's motion, Allied challenged the court's jurisdiction, arguing that because the issue was purely contractual (the license) and because diversity was lacking, the matter should be resolved in the state courts. Allied further argued that Aro had failed to perform certain oral conditions precedent to Allied's obligation to perform.

Addressing the jurisdictional issue, the court below stated that:

Jurisdiction rests upon the same footing as when the case began in 1971 since federal courts have consistently exercised their inherent power to enforce agreements settling cases in which the court originally had jurisdiction.

The court characterized Allied's reliance on alleged oral conditions precedent as "specious in light of the parol evidence rule."

Citing the interests of justice, the court granted Aro's motion for reinstatement of the case on the court's docket, enjoined Allied from not complying with the agreement, and again dismissed the complaint and counterclaim without prejudice.

ISSUES

Did the district court have jurisdiction to compel specific performance of a patent license forming the basis for an agreement settling litigation in the same district court between citizens of a single state?

If the court had jurisdiction, was summary enforcement of the instant settlement proper?¹

1. We decline the "suggestion" that we treat definitively of Allied's challenge to certain rulings on motions. The challenge is without merit [sic]. As the district court correctly stated, Allied's actions productive of some of the rulings complained of "could be construed as evidence of a tactic of delay and confusion" which would "border on bad faith by counsel."

Allied attempts to raise an issue of indefiniteness in the license. Because the terms attacked were the very terms negotiated through seven drafts to the final satisfaction of Allied, the issue is spurious. Moreover, the issue is raised in this litigation for the first time before us and cannot be considered on this appeal. *Wiper v. Great Lakes Engineering Works*, 340 F.2d 727 (6th Cir. 1965), cert. den. 382 U.S. 812, 86 S.Ct. 28, 15 L.Ed.2d 60; *Walter v. U.S.*, 295 F.2d 720 (6th Cir. 1961); *Aluminum Co. of America v. Sperry Products, Inc.*, 285 F.2d 911 (6th Cir. 1960), cert. den. 368 U.S. 890, 82 S.Ct. 139, 7 L.Ed.2d 87.

OPINION

JURISDICTION

It is well established that courts retain the inherent power to enforce agreements entered into in settlement of litigation pending before them. *Kukla v. National Distillers Products Co.*, 483 F.2d 619 (6th Cir. 1973); *Cia Anon Venezolana De Navegacion v. Harris*, 374 F.2d 33 (5th Cir. 1967); *All States Investors, Inc. v. Bankers Bond Co.*, 343 F.2d 618 (6th Cir. 1965). This court in *All States Investors* quoted with favor from *Melnick v. Binenstock*, 318 Pa. 533, 179 A. 77 (1935), as follows:

A compromise or settlement of litigation is always preferable to the action or proceeding in the court where the compromise was effective; it is through that court the carrying out of the agreement should thereafter be controlled. Otherwise the compromise, instead of being an aid to litigation, would be only productive of litigation as a separate and additional impetus.

Even in those instances in which the court's original jurisdiction may have been questionable, it has jurisdiction over settlement agreements, the execution of which renders the prior controversy academic. *Meetings & Expositions, Inc. v. Tandy Corp.*, 490 F.2d 714 (2d Cir. 1974).

Acting within its sound discretion, a court may relieve a party from a final judgment when a "reason justifying relief from the operation of the judgment" exists. Rule 60(b)(6), F.R.C.P. Hence the Court below was clearly correct in vacating its order of dismissal. Allied's attempted repudiation of the agreement on which the dismissal rested constituted full justification therefor. The court below had not only the inherent power but, when

required in the interests of justice, the duty to enforce the agreement which had settled the dispute pending before it.

The briefs of both parties refer to the license as the "settlement agreement." Allied, however, argues that enforcement of the agreement should be determined only by state courts because it is only a license contract between nondiverse parties. The argument must fail. The agreement in question is not merely a patent license. It is also the contractual vehicle by means of which the parties reached agreement settling their litigation. Both types of agreements are contracts; but a settlement agreement is more than a patent license even when, as here, the former rests on and is carried out by means of the latter. To permit the absence of diversity to divest the court of jurisdiction after settlement, when it could not have done so prior to settlement, would be to exalt form over substance and to render settlement in such cases a trap for the unwary. The license cannot be separated from the purpose of its birth. We are in full agreement with the district court's response to Allied's argument:

To take the defendant's [Allied's] position that the present motion to reinstate the case for alleged failure to comply with the terms of the settlement agreement is a mere contract dispute is to close one's eyes to the reason the agreement was formed. The agreement in question came into existence not in the free marketplace but in response to pending litigation in a federal court. It is not understating the issue to say that without the lawsuit, the agreement might never have come to pass. Therefore, the contract entered into between the parties cannot be viewed independently of the original suit; its formation was an outgrowth of this case.

Allied's reliance on *Kysor Industrial Corp. v. Pet, Inc.*, 459 F.2d 1010 (6th Cir. 1972), and *Arvin Industries, Inc. v. Berns Air King Corp.*, 510 F.2d 1070 (7th Cir. 1975), is misplaced. In *Kysor*, an original state suit had been removed to a federal court. In *Arvin*, a new suit had been filed on the license by the patent owner.

We hold, therefore, that the district court had jurisdiction to enforce the settlement agreement in this case.

SUMMARY ENFORCEMENT

Agreements settling litigation are solemn undertakings, invoking a duty upon the involved lawyers, as officers of the court, to make every reasonable effort to see that the agreed terms are fully and timely carried out. Public policy strongly favors settlement of disputes without litigation. Settlement is of particular value in patent litigation, the nature of which is often inordinately complex and time consuming. Settlement agreements should therefore be upheld whenever equitable and policy considerations so permit. By such agreements are the burdens of trial spared to the parties, to other litigants waiting their turn before over-burdened courts, and to the citizens whose taxes support the latter. An amicable compromise provides the more speedy and reasonable remedy for the dispute. *D. H. Overmeyer Co. v. Loflin*, 440 F.2d 1213 (5th Cir. 1971).

This court has held that courts have the power to summarily enforce settlement agreements, though an evidentiary hearing should be held when a substantial factual dispute exists. *Kukla v. National Distillers Products Co.*, *supra*. We agree with the court below that the situation presented here is clearly distinct from that presented in *Kukla*, wherein the very existence of an agreement con-

stituted a fundamental fact issue. Summary enforcement of the settlement herein was determinable solely as a matter of law. The terms of the agreement are clear and unambiguous. The district court correctly viewed the alleged oral conditions precedent as "specious in light of the parol evidence rule." Hence no fact issue was present and a hearing was not required.² Moreover, Aro's failure to meet the alleged conditions, if permitted consideration and accepted as alleged, would not constitute an excuse for Allied's dishonoring of its agreement. Neither condition affected the terms of the agreement. Whether other licensees accepted the lower royalty and the advertising provisions of Allied's license could have no effect on Allied's duty to comply with its agreement. Similarly, as admitted in Allied's reply brief, the life of the license is so short and the amount of royalties involved herein is so small that Allied's performance of its agreement would be substantially unaffected by the existence of unlicensed competition. Finally, we note that Allied has accepted all the benefits of the settlement agreement, including, *inter alia*, dismissal of the suit, release for past infringement of Allied, its suppliers and customers, and forgiveness of certain costs awarded against Allied by the District Court, without Allied's having performed its singular duty under the license.

Although Allied asks us only to reverse the district court's order of May 25, 1974, and to return the parties to the status quo following the stipulated dismissal, leaving

2. In a letter to the district court, Allied's counsel stated a willingness to attend a hearing but stated, "*However*" (emphasis in letter), that Aro's "mere request" for an oral hearing on its motion was insufficient support for "departure from the long-standing practice in this District for submission of motions on memoranda only."

Aro to an action in the state courts for enforcement of the license, a large segment of Allied's brief is devoted to a complaint that its counterclaim was erroneously dismissed following issuance of the injunction. *Lear, Inc. v. Atkins*, 396 U.S. 653, 89 S.Ct. 1902, 23 L.Ed.2d 610 (1969), is cited for the broad proposition that licensees must be permitted to attack the validity of the licensed patent in order to protect public interest in the demise of invalid patents.³ Allied does not directly seek remand for trial of its counterclaim but argues that the public policy which Allied finds in *Lear* would be advanced by relegation of the case to the state courts and subsequent trial therein of the validity of the patent.⁴

We need add little herein to the comparatively exhaustive discussion by this court of the relationship between the public interest in getting invalid patents declared invalid and the public interest in peacefully settling lawsuits in *Schlegel Manufacturing Co. v. USM Corporation*, 525 F.2d 775, 187 U.S.P.Q. 417 (6th Cir. 1975). It may be enough to say that we do not read *Lear* as requiring that the courts, state or federal, be subjected to the treatment here attempted by Allied.

3. Though less often mentioned, there is of course a strong public interest in upholding valid patents and in maintaining incentive to inventors to conceive and disclose patentable solutions to problems of environmental pollution, energy, economy, production, housing and the like, and to investors to risk the sums required for development and marketing of products embodying those solutions. That interest, reflected in the Constitution, Art. I, Sec. 8, is equally injured when invalid patents are held valid as when valid patents are held invalid.

4. The public interest in the peaceful settlement and termination of litigation applies equally to federal and state courts. The effect of the litigation explosion, with its resultant delays, is not limited to federal courts. Transfer of unnecessary and spurious litigation in either direction between federal and state courts does equal harm.

Having negotiated its settlement license at arm's length over many months, during all of which time it was in court with full opportunity of challenging the patent involved, and having stipulated dismissal of its counterclaim, Allied now seizes upon *Lear* as somehow providing it with an escape from its agreement and with a right to start all over again, four years later, in the state courts, which are unfamiliar with the facts and circumstances surrounding the agreement. Whatever boon *Lear* may have provided those who take licenses under certain conditions, it cannot be interpreted so broadly as to condone a kind of gamesmanship, wherein an alleged infringer, after employing the judicial system for months of discovery, negotiation and sparring, abandons its challenge to validity, executes a license in settlement, and then repudiates the license and seeks to start the fight all over again in the courts. *Lear* does not require that the courts answer every beck and call of the fickle suitor whose transient affection is governed by such on-again, off-again strategies. The mantle of *Lear* ill befits him who would use and reuse the courts as pawns in a private game of varying design. The "defender of the public interest" role is not available to him who would frustrate on whim the orderly conclusion of litigation.

Moreover, the factual basis apparently underlying the definition of the public interest in *Lear* is inapplicable here. Whether the assumption that all patents limit competition and raise prices has ever been supported anywhere by evidence,⁵ the record before us clearly establishes the contrary

5. In *Northern Pacific Railway Co., et al. v. U. S.*, 356 U.S. 1 (1957), at 10, footnote 8, the Supreme Court stated, "of course it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight. * * *"

with respect to Aro's patent. In the present case, competing production by Aro, by its other licenses, and by the ten additional unlicensed manufacturers named by Allied, insures that the competitive marketplace, not any monopoly consideration, will set the price of the patented product. Moreover, there is no evidence that the public has no alternative unpatented product available. If Allied is held to its settlement agreement, and precluded from reviving its abandoned challenge to the validity of the patent in this action, it will merely share a small part of its normal profit with Aro. Allied tells us that its maximum possible payment to Aro under the license cannot amount to more than \$500 per year, or a total of approximately \$1,668 for the full 3 1/3 year term of the license.

Unlike earlier cases involving partial trials and consent decrees of infringement and validity, the present case involves only a stipulated dismissal, without prejudice, and a license. Nonetheless, the rationale of *Schlegel, supra*, is fully applicable to the case before us. By holding Allied to its agreement, as was said in *Schlegel*, "we do not close the doors of the courts to litigation on the issue of patent validity," except as to Allied and its privies and only after Allied had had the opportunity to litigate the issue fully. Indeed, in the present case we are assured of at least two other licensees with the incentive to challenge the patent envisaged in *Lear* as residing in licensees. We have, as well, the presence of at least ten alleged infringers, any of which may elect to challenge the patent if Aro should attempt further enforcement thereof.

In balancing the public interest in settlement of lawsuits against that of removing invalid patents, we do not perceive the doctrinal standoff envisaged by Allied in its reliance on *Lear*. Though neither policy can be said to

be transcendent, the choice need not be draconian. Evidence, not monopolophobia, should control. Where it can be shown that a patent does in fact have the effect of a "tax on the public," is in fact a cause of increased pricing, is in fact serving to limit competition in its product line or does in fact exert substantial effect upon the public and where it can be shown that the proffered challenge is the only one likely to be made, it may be that judicial policy should place determination of the possibility that such patent may be invalid ahead of holding litigants to their settlement agreements. In the absence of such evidence respecting the true effect of the specific patent or patents involved in a particular case, the clear public interest in settlement of lawsuits may be expected to prevail. As above indicated, the evidence herein establishes that none of the mentioned effects exists with respect to Aro's patent.

For all of these reasons, we conclude that the public interest in the settlement of this litigation far outweighs any public interest to be served by providing Allied with a second chance to litigate the validity of the soon-to-expire patent involved in this case.

We find no reason in equity or in law why the settlement should not be enforced by an injunction against Allied's failure to comply with the license agreement herein. Accordingly, the order of the district court is affirmed. Costs of the appeal are assessed against the appellant. The motion for attorneys' fees and additional costs is denied.

Judgment of the Court of Appeals

(Filed March 25, 1976)

No. 75-1510

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

THE ARO CORPORATION,
Plaintiff-Appellee,

v.

ALLIED WITAN COMPANY,
Defendant-Appellant.

Before: WEICK, *Circuit Judge*, LIVELY, *Circuit Judge*, and
MARKEY, *Chief Judge*, U. S. Court of Customs and
Patent Appeals.**JUDGMENT**APPEAL from the United States District Court for the
Northern District of Ohio.THIS CAUSE came on to be heard on the record from
the United States District Court for the Northern District
of Ohio and was argued by counsel.ON CONSIDERATION WHEREOF, It is now here
ordered and adjudged by this Court that the judgment of
the said District Court in this cause be and the same is
hereby affirmed.It is further ordered that Plaintiff-Appellee recover
from Defendant-Appellant the costs on appeal, as itemized
below, and that execution therefor issue out of said Dis-
trict Court if necessary.

ENTERED BY ORDER OF THE COURT.

/s/ JOHN P. HEHMAN
*Clerk***Order of the Court of Appeals Diminishing Costs**

(April 28, 1976)

No. 75-1510

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

THE ARO CORPORATION,
Plaintiff-Appellee,

v.

ALLIED WITAN COMPANY,
Defendant-Appellant.

ORDERUpon consideration of the Bill of Costs, Appellant's
Motion for Deferment and Diminution of Costs and Memo-
randum in support thereof, and Appellee's Response there-
to, it is ORDERED that the motion for deferment be de-
nied and that costs are hereby taxed and assessed against
Appellant in the amount of \$1,450.

/s/ PAUL C. WEICK

United States Circuit Judge

Order of the Court of Appeals Denying Rehearing

(Filed May 7, 1976)

No. 75-1510

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

THE ARO CORPORATION,
Plaintiff-Appellee,

v.

ALLIED WITAN COMPANY,
Defendant-Appellant.

ORDERBEFORE: WEICK, *Circuit Judge*; MARKEY, *Chief Judge of
the Court of Customs and Patent Appeals**; and
LIVELY, *Circuit Judge.*

On examination of appellant's petition for rehearing,
filed April 8, 1976, the court concludes that all matters
raised therein were fully considered by the court on the
original submission of this case.

Accordingly, the petition for rehearing is hereby
denied.

ENTERED BY ORDER OF THE COURT.

/s/ JOHN P. HEHMAN
Clerk

*Sitting by designation.**APPENDIX B****Order of Dismissal of District Court**

(Filed March 25, 1974)

No. 71-468

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO,
EASTERN DIVISION

THE ARO CORPORATION,
Plaintiff,

vs.

ALLIED WITAN COMPANY, *et al.,*
Defendants.

ORDER

The parties to this action having compromised and
settled their differences pursuant to agreement,

IT IS HEREBY ORDERED:

1. The Complaint is hereby dismissed without prejudice.
2. The Counterclaim is hereby dismissed without prejudice.
3. Each of the parties shall bear its own costs and attorneys' fees.

THEREFORE, this action is dismissed.

/s/ DON J. YOUNG
United States District Judge

Memorandum and Order of the District Court

(Filed January 30, 1975)

No. 71-468

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

THE ARO CORPORATION,
Plaintiff,

vs.

ALLIED WITAN COMPANY, *et al.,*
Defendants.

MEMORANDUM AND ORDER**YOUNG, J:**

This cause came to be heard upon motion by plaintiff to vacate the order of the Court dismissing the suit without prejudice, pursuant to Rule 60, Fed. R. Civ. P., and to order specific performance of a settlement agreement which caused the suit's dismissal.

In its motion, plaintiff asserts that this case was dismissed due to a settlement agreement entered into by the parties to take effect April 1, 1974, one week after the Court's order dismissing the case without prejudice; that the defendants have not complied with the express written terms of the agreement; and that fraud has been perpetrated by the defendant. As a consequence, plaintiff requests that the Court vacate the order dismissing the suit, reinstate the case, and order specific performance.

Defendant argues that the issue currently under dispute is purely a contract matter without an adequate jurisdictional base, and therefore the disagreement should be adjudicated in state rather than federal court. Further, the defendant asserts that the plaintiff has not performed a condition precedent to the formation of the written agreement settling the matters in dispute.

The Court has weighed carefully the earnest arguments of the respected litigants, represented by most able counsel, and finds that the motion filed by plaintiff to vacate the order of dismissal without prejudice should be granted.

The threshold issue raised by plaintiff's motion is whether there exists a jurisdictional basis for the Court to consider any breach of the settlement agreement. In the Court's view, jurisdiction rests upon the same footing as when the case began in 1971 since federal courts have consistently exercised their inherent powers to enforce agreements settling cases in which the court originally had jurisdiction. *All States Investors Inc. v. Bankers Bond Co.*, 343 F.2d 618, 624 (6th Cir. 1965); *Cummins Diesel Michigan Inc. v. The Falcon*, 305 F.2d 721, 723 (7th Cir. 1962); *L. M. Leathers' Sons v. Goldman*, 252 F.2d 188 (6th Cir. 1958). These decisions rest upon strong policy arguments favoring settlement of disputes. To take the defendant's position that the present motion to reinstate the case for alleged failure to comply with the terms of the settlement agreement is a mere contract dispute is to close one's eyes to the reason the agreement was formed. The agreement in question came into existence not in the free market place but in response to pending litigation in a federal court. It is not understating the issue to say that without the lawsuit, the agreement might never have come to pass. Therefore, the contract entered into between the parties cannot be

viewed independently of the original suit; its formation was an outgrowth of this case.

In *Kukla v. National Distillers Products*, 483 F.2d 619 (6th Cir. 1973), the Sixth Circuit Court of Appeals stated that to effectuate a policy favoring settlement of disputes, the power of a trial judge to enforce a settlement agreement will be upheld even if the agreement has not been arrived at in the presence of the court. See also *Good v. Pennsylvania R. R. Co.*, 384 F.2d 989, 990 (3rd Cir. 1967). In order to determine their intent, it is necessary that the Court vacate the dismissal order and affix the rights and duties of the parties under the settlement agreement so that relief may be granted as justice requires.

Rule 60(b)(6), Fed. R. Civ. P., provides that the Court may relieve a party from a final order for any reason justifying relief from the operation of the judgment. If a party has entered into a settlement agreement causing this Court to dismiss a lawsuit and then, in disregard of the agreement, acts or fails to act in contravention of its terms, this Court believes that the interests of justice require reinstatement of the case so as to determine the liability of a party, if any, for a breach of the agreement.

The case cited by the defendant, *Kysor Industrial Corp. v. Pet, Inc.*, 459 F.2d 1010 (6th Cir. 1972) is distinguishable on the facts. In *Kysor*, the contract relating to patent licenses was entered into by the parties before the commencement of litigation and then the agreement and its meaning served as the basis of a lawsuit filed in state court, removed to federal court, then remanded back to state court by the Sixth Circuit Court of Appeals since actions to enforce patent license agreements are not within the exclusive federal jurisdiction. In the case at bar, the patent license agreement was in response to pending litiga-

tion resting upon an independent jurisdictional base. The defendant's contention that the agreement would not take effect until one week after the case was dismissed without prejudice and therefore no case was actually pending at the time exalts form over substance. The fact remains that the case was dismissed in anticipation of the parties reducing their agreements to writing which they ultimately did. Whether the agreement was entered into immediately prior to or after the docketing of the settlement by the Court is irrelevant for consideration of the present motion.

The interests of justice mandate not only granting the motion of plaintiff for relief from the judgment, pursuant to Rule 60, and reinstatement of the case upon the Court's docket, but also specific performance of the settlement agreement, which is plainly written and open to no serious doubts as to its meaning. The claim of the defendant that the plaintiff has not performed a condition precedent to the written settlement agreement thereby relieving the defendant of its duties is specious in light of the parole evidence rule. This claim has no merit. To further delay this matter is not in the best interests of the plaintiff who has negotiated the agreement in good faith.

Therefore, for the reasons stated herein and for good cause appearing, it is

ORDERED that the motion filed by plaintiff for relief from the order of the Court dismissing this case without prejudice should be and hereby is granted, and it is

FURTHER ORDERED that this case should be and hereby is reinstated upon the Court's pending Eastern Division docket, and it is

FURTHER ORDERED that the motion filed by plaintiff for specific performance of the settlement agreement should be and hereby is granted, and it is

FURTHER ORDERED that defendant Allied Witan, its officers, agents, servants, employees, and attorneys should be and hereby are ENJOINED from not complying with the terms of the settlement agreement.

IT IS SO ORDERED.

/s/ DON J. YOUNG

*United States District Judge
N.D. Ohio, W. Division*

Judgment of the District Court

(Filed February 5, 1975)

Civil Action File No. 71-468

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO,
EASTERN DIVISION

THE ARO CORPORATION,
Plaintiff,
vs.

ALLIED WITAN COMPANY, *et al.*
Defendants.

JUDGMENT

This action came on for (hearing) before the Court, Honorable Don J. Young, United States District Judge, presiding, and the issues having been duly (heard) and a decision having been duly rendered,

It is Ordered and Adjudged that the Consent Order dismissing complaint and counterclaim without prejudice is vacated. Defendant Allied Witan, its officers, agents, servants, employees, and attorneys should be and hereby are enjoined from not complying with the terms of the settlement agreement. Complaint and counterclaim dismissed without prejudice.

/s/ DON J. YOUNG

United States District Judge

**Order of the District Court Extending Time for
Filing Record and Docketing Appeal**

(Filed March 12, 1975)

No. 71-468

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO,
EASTERN DIVISION

THE ARO CORPORATION,
Plaintiff,

vs.

ALLIED WITAN COMPANY, *et al.*,
Defendants.

Good cause therefore appearing, it is ORDERED that the time for the filing of the record on appeal in the United States Court of Appeals for the Sixth Circuit, and for the docketing therein, is hereby extended to April 15, 1975, pursuant to Rule 11, (d) of the Federal Rules of Appellate Procedure.

/s/ NICHOLAS J. WALINSKI

United States District Judge

Memorandum and Order of the District Court

(Filed March 26, 1975)

No. 71-468

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO,
EASTERN DIVISION

THE ARO CORPORATION,
Plaintiff,

vs.

ALLIED WITAN COMPANY, *et al.*,
Defendants.

YOUNG, J:

This cause came to be heard upon motion by the defendant Allied Witan Company to withdraw its interlocutory appeal and either to alter and amend judgment previously entered or to stay the judgment pending appeal. On January 30, 1975, this Court by memorandum and order vacated a prior consent dismissal order, reinstated the case on its docket and entered an injunction requiring specific performance by the defendant of the settlement agreement, which is a patent license agreement. Defendant filed a notice of an interlocutory appeal on February 3, 1975 under 28 U.S.C. §1292(a)(1) from the injunctive portion of the order. On February 5, 1975, the Court filed a judgment order embodying the January 30th order and further dismissing the complaint and counterclaim without prejudice.

As to the change in the nature of defendant's appeal, plaintiff does not oppose such a change. The Court agrees that defendant's interlocutory appeal is now properly an appeal from a judgment and final order pursuant to 28 U.S.C. §1291. That portion of the defendant's motion will be granted.

The alteration or amendment of the judgment is another matter. Plaintiff initially contends that this motion under Rule 59(e), Fed. R. Civ. P. is untimely as it was not filed within ten days of the filing of the judgment. Plaintiff argues that the "judgment" in this case was the order of January 30th. The Court disagrees with that contention because the judgment order filed February 5, 1975, was the final order and judgment entry in this case. Defendant's motion was timely filed on February 18, 1975 because the tenth day after filing of the judgment was Saturday, February 15th and Monday, February 17th was a legal holiday, which made the 18th the next regular business day. Rule 6(a), Fed. R. Civ. P. Also, three days are allowed for mailing. Rule 6(e), Fed. R. Civ. P.

Defendant's motion to amend or alter the Court's judgment must be denied. Defendant argues that there must be some independent basis for the enforcement of the patent license after the dismissal of the case. However, the Court finds that it had jurisdiction over the original proceeding between the parties under its patent jurisdiction, 28 U.S.C. §1338. Once jurisdiction properly attached, the Court has the power to enter a judgment enforcing a settlement agreement. *Kukla v. National Distillers Products Co.*, 483 F.2d 619, 621 (6th Cir. 1973). In the instant case, the parties agreed upon a settlement of their controversy by execution of a license agreement involving the Zwyer patent and thereafter the consent dismissal was entered into and filed.

The defendant now argues that the summary enforcement of the license agreement, as a settlement agreement, is inappropriate, claiming that there are many disputes which make summary action improper. Defendant alleges that the primary issue is which party first abrogated the license agreement. Defendant also seeks to interject once again its claim of the invalidity of the Zwyer patent as a basis for refusing enforcement.¹

The Court does not believe that this case comes within the situation described in *Kukla, supra* at 621-622 as being a dispute over the entry into or the terms of a settlement agreement. There is no dispute in the present case that plaintiff and defendant entered into a license agreement. The parties agreed to a resolution of their conflict and put their agreement into the license arrangement. It is clear that the defendant has not performed according to the terms of that agreement. Defendant now seeks to avoid the specific performance required by the Court's order by alleging non-compliance with the agreement by the plaintiff, consisting of an alleged failure to prosecute other infringers of the Zwyer patent. Defendant's allegations are irrelevant as to the present proceeding. It is clear that the defendant has not observed the license agreement and that the agreement was the basis for the dismissal of

1. Defendant argues that the enforcement of the license agreement leaves it with only one remedy to challenge the validity of the Zwyer patent, and that is through a declaratory judgment action as recognized in *Lear v. Adkins*, 395 U.S. 653 (1969). The issue of payment of royalties pending determination of validity of the patent in a suit by a licensee under *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253 (6th Cir. 1972) (*Troxel I*) and *Troxel II*, 489 F.2d 968 (6th Cir. 1973), cert. denied, 416 U.S. 939 (1974) and *Atlas Chemical Industries v. Moraine Products*, Nos. 74-1141-42 (6th Cir. filed December 12, 1974) are inapplicable in the present case because there simply is no challenge to the Zwyer patent in the present case after the dismissal of the original suit.

the previous proceeding. The Court will not modify or amend its previous order which attempted to avoid the costs and time of further litigation by enforcing a settlement entered into as a resolution of a pending lawsuit.

As to the defendant's request to stay execution of the injunction in the final order and judgment pending appeal, plaintiff agrees to the request provided defendant posts sufficient security. The Court also believes that adequate security should be posted. The license agreement was the end product of a long and tortuous course of dealing between the parties. To insure that plaintiff's rights are adequately protected while defendant's performance is further delayed, the defendant will be required to post a bond sufficient to make the plaintiff whole if the defendant fails to secure relief from the United States Court of Appeals for the Sixth Circuit. The defendant will be required to file a sworn statement which will permit an informed judgment as to what security will be adequate. The stay of execution will become effective only upon further order after a determination of security is made.

Therefore, for the reasons stated herein and for good cause appearing, it is

ORDERED that the motion filed by defendant Allied Witan Company to withdraw its notice of interlocutory appeal should be and hereby is granted, and it is

FURTHER ORDERED that the appeal of the defendant should proceed as an appeal under 28 U.S.C. §1291, and it is

FURTHER ORDERED that the motion filed by defendant to alter and amend judgment should be and hereby is denied, and it is

FURTHER ORDERED that the motion filed by defendant to stay execution of judgment pending appeal should be and hereby is granted upon the express condition of the posting of adequate security, and it is

FURTHER ORDERED that in order to determine adequate security for the stay of judgment, the defendant should be and hereby is required to file within ten (10) days from the date of the filing of this order a written accounting under oath setting forth

- (1) the number and dollar amount of licensed articles for which royalties are presently due under the terms of the settlement agreement and
- (2) The monthly sales of licensed articles during the last twelve (12) months to enable an estimate of future sales of such licensed articles during the pendency of any appeal plus interest from April 30, 1974,

and it is

FURTHER ORDERED that the plaintiff Aro Corporation may suggest an adequate security based upon the above-specified sworn statement within five (5) days from the date of service of such statement from the defendant; however, no reply thereto will be permitted.

IT IS SO ORDERED.

/s/ DON J. YOUNG

*United States District Judge
N.D. Ohio, W. Div.*

Memorandum and Order of the District Court

(Filed April 3, 1975)

No. 71-468

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

THE ARO CORPORATION,
Plaintiff,

vs.

ALLIED WITAN COMPANY, *et al.,*
Defendants.

YOUNG, J:

This cause came to be heard upon motion of the defendant Allied Witan Company to extend the time for transmission of the record and return the file to the Eastern Division for inspection. Plaintiff's counsel has informed the Court by oral communication that it will not respond to the motion.

The Court will deny the request for an extension of time for transmittal of the record in this case to the United States Court of Appeals for the Sixth Circuit. Defendant filed a notice of interlocutory appeal on February 3, 1975, which in turn upon defendant's motion was treated as an appeal under 28 U.S.C. §1291 pursuant to the Court's Order filed March 26, 1975. On March 27, 1975, the defendant filed another notice of appeal. The record of this case, pursuant to defendant's original notice of appeal, was due in the court of appeals on March 10, 1975. Defendant's coun-

sel was so notified on February 5, 1975. Appendices A and B. Because of the intervening filing by the defendant of a motion on February 18, 1975, the Court extended the period for transmittal of the record to April 15, 1975 by an order filed March 12, 1975. Upon oral inquiry from defendant's counsel on March 14, 1975, concerning the March 12th order, counsel was informed by a law clerk of this Court that the order was entered to keep the record with the Court until defendant's February 18th motion was resolved. A clerk of this Court, in the process of serving copies of the Court's March 26th memorandum and order, appended an informal note to defendant's counsel's copy as a courtesy to inform him that the file would be available for inspection through April 11th, and that the appeal was proceeding under his original notice of appeal. Appendix C. This courtesy was extended because of the confusion by counsel for the defendant concerning the March 12th order.

The foregoing recital of events demonstrates that the Court has processed defendant's appeal upon the original notice of appeal and continues to do so. The record, after one extension, must be transmitted to the court of appeals prior to April 15, 1975. In order to fulfill this requirement, it will not be possible to transmit the record to the Eastern Division of the District in Cleveland, Ohio. Since one extension was granted *sua sponte* by the Court, during which counsel made no effort to inspect the record, a further extension is not warranted.

The Court notes that the present motion could be construed as evidence of a tactic of delay and confusion. Such a tactic would border on bad faith by counsel. The Court is heavily burdened with pressing judicial business, much of it involving civil rights litigation important to the public

interest, and meaningless and dilatory pleading practices threaten to place an extra burden on the Court that would seriously affect its ability to deal with meaningful matters. It is hoped that no such purpose motivates counsel in this case. Defendant has perfected its appeal and is now free to present whatever claims it desires to the court of appeals. The Court will transmit the record of this case to the court of appeal on the previously determined schedule.

Therefore, for the reasons stated herein and for good cause appearing, it is

ORDERED that the motion filed by defendant for an extension of time for transmission of the record and return to the Eastern Division for inspection should be and hereby is denied.

IT IS SO ORDERED,

/s/ DON J. YOUNG

*United States District Judge
N.D. Ohio, W. Division*

APPENDIX C

Federal Rules of Civil Procedure, Rule 54

JUDGMENTS; COSTS

* * * * *

(b) Judgment Upon Multiple Claims or Involving Multiple Parties. When more than one claim for relief is presented in an action, whether as a claim, counterclaim, cross-claim, or third-party claim, or when multiple parties are involved, the court may direct the entry of a final judgment as to one or more but fewer than all of the claims or parties only upon an express determination that there is no just reason for delay and upon an express direction for the entry of judgment. In the absence of such determination and direction, any order or other form of decision, however designated, which adjudicates fewer than all the claims or the rights and liabilities of fewer than all the parties shall not terminate the action as to any of the claims or parties, and the order or other form of decision is subject to revision at any time before the entry of judgment adjudicating all the claims and the rights and liabilities of all the parties.

* * * * *

Federal Rules of Civil Procedure, Rule 56

SUMMARY JUDGMENT

(a) For Claimant. A party seeking to recover upon a claim, counterclaim, or cross-claim or to obtain a declaratory judgment may, at any time after the expiration of 20 days from the commencement of the action or after service of a motion for summary judgment by the adverse

party, move with or without supporting affidavits for a summary judgment in his favor upon all or any part thereof.

(b) For Defending Party. A party against whom a claim, counterclaim, or cross-claim is asserted or a declaratory judgment is sought may, at any time, move with or without supporting affidavits for a summary judgment in his favor as to all or any part thereof.

(c) Motion and Proceedings Thereon. The motion shall be served at least 10 days before the time fixed for the hearing. The adverse party prior to the day of hearing may serve opposing affidavits. The judgment sought shall be rendered forthwith if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law. A summary judgment, interlocutory in character, may be rendered on the issue of liability alone although there is a genuine issue as to the amount of damages.

(d) Case Not Fully Adjudicated on Motion. If on motion under this rule judgment is not rendered upon the whole case or for all the relief asked and a trial is necessary, the court at the hearing of the motion, by examining the pleadings and the evidence before it and by interrogating counsel, shall if practicable ascertain what material facts exist without substantial controversy and what material facts are actually and in good faith controverted. It shall thereupon make an order specifying the facts that appear without substantial controversy, including the extent to which the amount of damages or other relief is not in controversy, and directing such further proceedings in the action as are just. Upon the trial of the action the facts so specified shall be deemed established, and the trial shall be conducted accordingly.

(e) Form of Affidavits; Further Testimony; Defense Required. Supporting and opposing affidavits shall be made on personal knowledge, shall set forth such facts as would be admissible in evidence, and shall show affirmatively that the affiant is competent to testify to the matters stated therein. Sworn or certified copies of all papers or parts thereof referred to in an affidavit shall be attached thereto or served therewith. The court may permit affidavits to be supplemented or opposed by depositions, answers to interrogatories, or further affidavits. When a motion for summary judgment is made and supported as provided in this rule, an adverse party may not rest upon the mere allegations or denials of his pleading, but his response, by affidavits or as otherwise provided in this rule, must set forth specific facts showing that there is a genuine issue for trial. If he does not so respond, summary judgment, if appropriate, shall be entered against him.

(f) When Affidavits Are Unavailable. Should it appear from the affidavits of a party opposing the motion that he cannot for reasons stated present by affidavit facts essential to justify his opposition, the court may refuse the application for judgment or may order a continuance to permit affidavits to be obtained or depositions to be taken or discovery to be had or may make such other order as is just.

(g) Affidavits Made in Bad Faith. Should it appear to the satisfaction of the court at any time that any of the affidavits presented pursuant to this rule are presented in bad faith or solely for the purpose of delay, the court shall forthwith order the party employing them to pay to the other party the amount of the reasonable expenses which the filing of the affidavits caused him to incur, including reasonable attorney's fees, and any offending party or attorney may be adjudged guilty of contempt.

Federal Rules of Civil Procedure, Rule 60(b)**RELIEF FROM JUDGMENT OR ORDER**

* * * * *

(b) Mistakes; Inadvertence; Excusable Neglect; Newly Discovered Evidence; Fraud, etc. On motion and upon such terms as are just, the court may relieve a party or his legal representative from a final judgment, order, or proceeding for the following reasons: (1) mistake, inadvertence, surprise, or excusable neglect; (2) newly discovered evidence which by due diligence could not have been discovered in time to move for a new trial under Rule 59(b); (3) fraud (whether heretofore denominated intrinsic or extrinsic), misrepresentation, or other misconduct of an adverse party; (4) the judgment is void; (5) the judgment has been satisfied, released, or discharged, or a prior judgment upon which it is based has been reversed or otherwise vacated, or it is no longer equitable that the judgment should have prospective application; or (6) any other reason justifying relief from the operation of the judgment. The motion shall be made within a reasonable time, and for reasons (1), (2), and (3) not more than one year after the judgment, order, or proceeding was entered or taken. A motion under this subdivision (b) does not affect the finality of a judgment or suspend its operation. This rule does not limit the power of a court to entertain an independent action to relieve a party from a judgment, order, or proceeding, or to grant relief to a defendant not actually personally notified as provided in Title 28, U.S.C., § 1655, or to set aside a judgment for fraud upon the court. Writs of *coram nobis*, *coram vobis*, *audita querela*, and bills of review and bills in the nature of a bill of review, are abolished, and the procedure for obtaining any relief from a judgment shall be by motion as prescribed in these rules or by an independent action.